



Penser Access by Carnegie

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Sensys Gatso Group

Solid order intake in seasonally weak quarter on earnings front

Continued robust order intake but seasonally weak quarter in terms of earnings

Sensys Gatso delivered what we consider a convincing report. Order intake ramped up 253% Y/Y to SEK318m. TRaaS operations accounted for 86% of the order value. The biggest driver of order intake was the US, where the company signed nine contracts, of which four covered new cities, with a deal value of SEK154m. Sales growth was 11%, with the largest equipment deliveries to Sweden and the Netherlands only contributing marginally. The company incurs the expenses for these contracts. This, in combination with a seasonally weak development in the US, owing to weather conditions and the legally prompted halting of automatic traffic control around school zones during school holidays, led to EBIT of SEK-7m. However, this was somewhat better than the Q1(23) results of SEK-9m. Operating cash flows were strong at SEK55m (SEK-8m), mainly thanks to large customer payments that aided tied-up working capital. On the day of the report, the company also announced a large US order of SEK197m, of which SEK160m was new business and SEK37m an extension of an existing contract.

Unchanged estimates – company maintains financial targets for 2025

We leave our forecasts unchanged as the results for Q1(24) support our expectations for 2024e suggesting Y/Y improvements. The company reiterated its targets for 2025: sales of SEK1bn, an EBITDA margin of at least 15%, and TRaaS sales accounting for 60% of total sales. It is worth noting that a large share of the order book for equipment sales – primarily to Trafikverket (Swedish Transport Administration) – has not yet been invoiced, and that the order flow from the US still supports the growth the company has previously seen in Managed Services – a 2018–2023 CAGR of 27%.

Unchanged fair value – solid growth on the cards as company closes in on 2025 targets

We maintain our fair value of SEK80–100. As the company nears its 2025 targets – which we consider likely as its solid order book should bolster growth in equipment sales substantially, while both historical performance and current order intake in the US indicate continued growth surpassing 20% Y/Y – we view the share as appealingly valued at an EV/EBIT multiple far below 10x for both 2025e and 2026e.

Change in estimates				Forecasts (SEKm)				Value and risk		
	24e	25e	26e		2023	2024e	2025e	2026e	Fair value	SEK 80.0 - 100
Total Revenues	0.0%	0.0%	0.0%	Total Revenues	624	718	1,074	1,173	Share price	SEK 74.8
EBIT, adj.	0.0%	0.0%	0.0%	Revenue growth	26%	15%	50%	9%	Risk level	Medium
EPS, adj.	0.0%	0.0%	0.0%	EBITDA, adj.	85	100	166	182	Price Performance 12 months	
Upcoming events				EBIT, adj.	39	56	114	130		
Q2 - report	23 August 2024			EPS, adj.	1.3	3.3	7.3	8.3	Conflicts of interest	
Q3 - report	15 November 2024			EPS growth, adj.	-28%	165%	120%	14%		
Company facts (SEKm)				BV/share	55.2	58.5	65.8	74.1	Yes	No
Number of shares	12m			EBIT-marg. adj.	6.3%	7.9%	10.7%	11.1%	Liquidity provider	✓
Market capitalisation	862			ROE, adj.	2.3%	5.9%	11.8%	11.9%	Certified adviser	✓
Net debt	81			ROCE, adj.	5.3%	7.0%	13.1%	13.5%	Transactions 12m	✓
EV	943			EV/Sales	1.5x	1.3x	0.9x	0.8x		
Free float	82%			EV/EBITDA	10.8x	9.4x	5.7x	5.2x		
Daily trading volume, average	16k			EV/EBIT	23.4x	16.7x	8.2x	7.3x		
Bloomberg Ticker	SENS SS EQUITY			P/E, adj.	57.8x	22.5x	10.2x	9.0x		
Analyst				P/BV	1.3x	1.3x	1.1x	1.0x		
Örjan Rödén				FCF yield	Neg.	0%	4%	14%		
orjan.rodén@carnegie.se				Net debt / EBITDA	1.3x	1.0x	0.4x	-0.3x		

Investment case

Higher share of recurring revenues

Sensys Gatso is focusing on a higher share of recurring revenues from TRaaS (traffic enforcement as a service), which implies more revenue stability. Its goal is for TRaaS to account for more than 60% of turnover by 2025. We expect the company to achieve this and for its annual growth in recurring revenues to surpass 20% in the coming five years.

TRaaS – future revenue source in the public sector

TRaaS represents increased revenues for public entities without having to invest capital or increase current operating costs. Sensys Gatso undertakes the entire operational and investment responsibility and shares the revenues with clients. TRaaS will thus allow a higher share of public spending by clients, while also reducing the costs of traffic injuries and mortality.

Greater geographical presence

Sensys Gatso is growing a broad geographical footprint, including in North and South America and the Middle East. The need for traffic control in these markets is extensive. There is also great openness towards the TRaaS model compared with Scandinavia, for example. This allows for a higher share of TRaaS revenues over time. The potential is most prominent in the US.

High tech content suggests greater value creation

At first glance, Sensys Gatso appears to be a company with low tech content: traffic cameras are not, by definition, an advanced technology. But in reality, its tech content is growing as peripheral services around the surveillance itself increase. This ensures greater profitability and more consistent sales in the future.

Focus on traffic safety, a better environment, and lower energy use creates favourable growth conditions

Society's efforts towards greater sustainability offer superb opportunities for future demand. The strongest driver of this is the focus on improved traffic safety to save lives and reduce injuries, which, as well as minimising suffering, also saves considerable societal resources. Lower speeds thanks to traffic control also lead to reduced emissions, which is positive for health and the environment, helping to reduce energy consumption.

Company profile

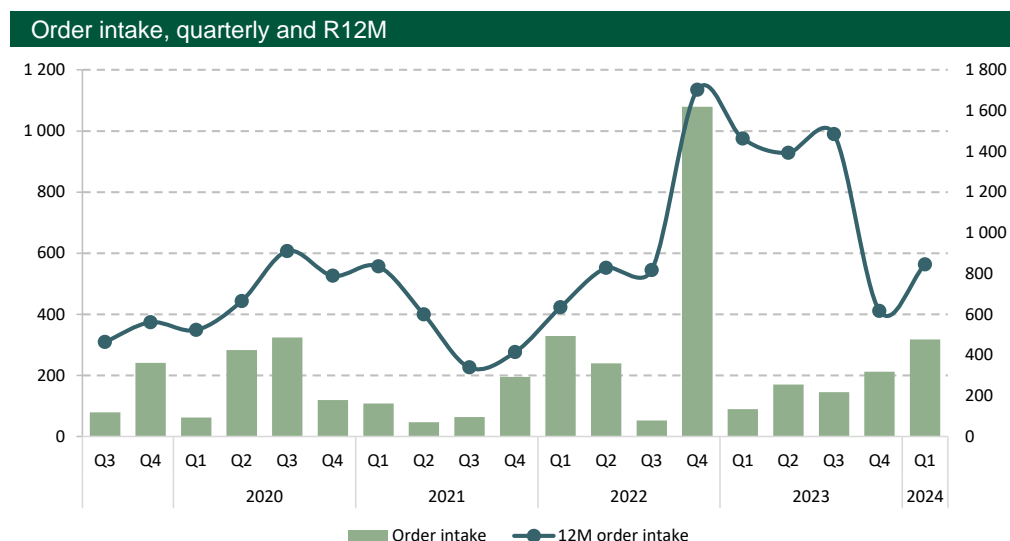
Sensys Gatso is the result of a 2015 merger between Sweden's Sensys and Gatso of the Netherlands. The company sells traffic safety products and services to various public players. Examples of its products include speed cameras and traffic lights. Sensys Gatso has also developed software that can automate the entire process of fines for traffic offences. A typical example is a speed camera that photographs the speeding driver, with the vehicle's owner identified with the help of Sensys Gatso's software and the fine then issued by the system. Sensys Gatso can also manage the financial aspects of the fines.

Valuation

We value Sensys Gatso using a DCF model, including WACC of 12%, a sustainable operating margin of 13%, and long-term growth of 3%. This suggests a DCF value of SEK94 per share. We believe the company will achieve its 2025 target and continue its growth thereafter. A greater share of revenues from software overall, and TRaaS in particular, would ensure higher margins in the long term than before.

Brief overview of the quarter

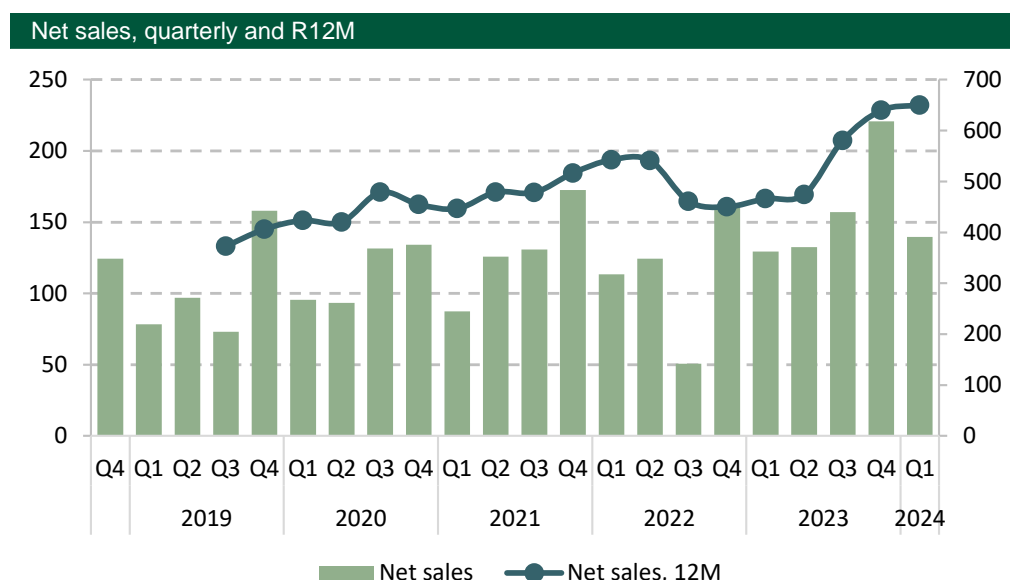
Sensys Gatso delivered what we consider a convincing report. Order intake ramped up 253% Y/Y to SEK318m. TRaaS operations accounted for 86% of the order value.



Source: SGG, Penser by Carnegie

The biggest driver of order intake was the US, where the company signed nine contracts, of which four covered new cities, with a deal value of SEK154m. On the day of the report, the company also announced a large US order of SEK197m, of which SEK160m was new business and SEK37m an extension of an existing contract.

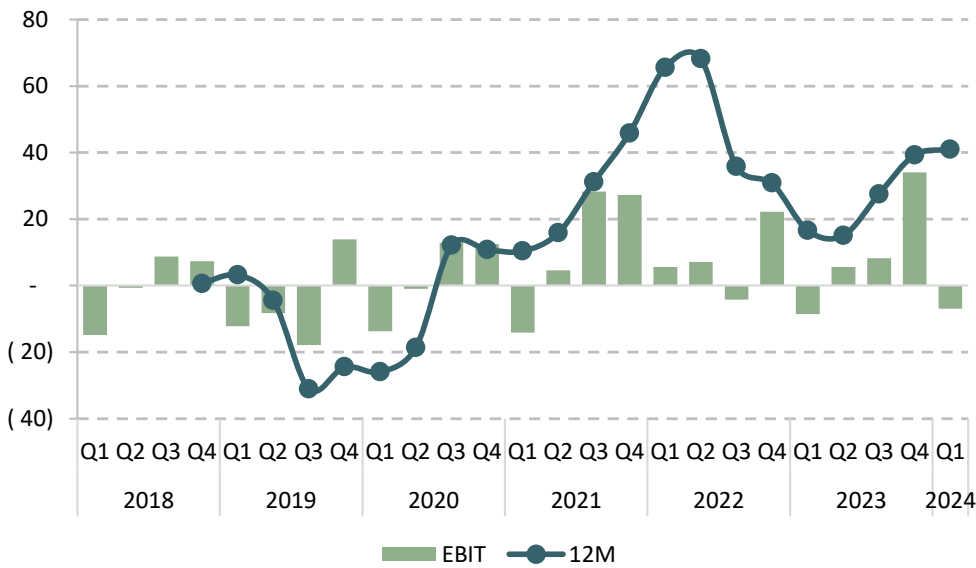
Sales growth was 11%, with the largest equipment deliveries to Sweden and the Netherlands only contributing marginally.



Source: SGG, Penser by Carnegie

The company incurs the expenses for these contracts, and this, in combination with a seasonally weak development in the US – owing to weather conditions and the legally prompted halting of automatic traffic control around school zones during school holidays – led to EBIT of SEK-7m. However, this was somewhat better than the Q1(23) results of SEK-9m.

EBIT, quarterly and R12M

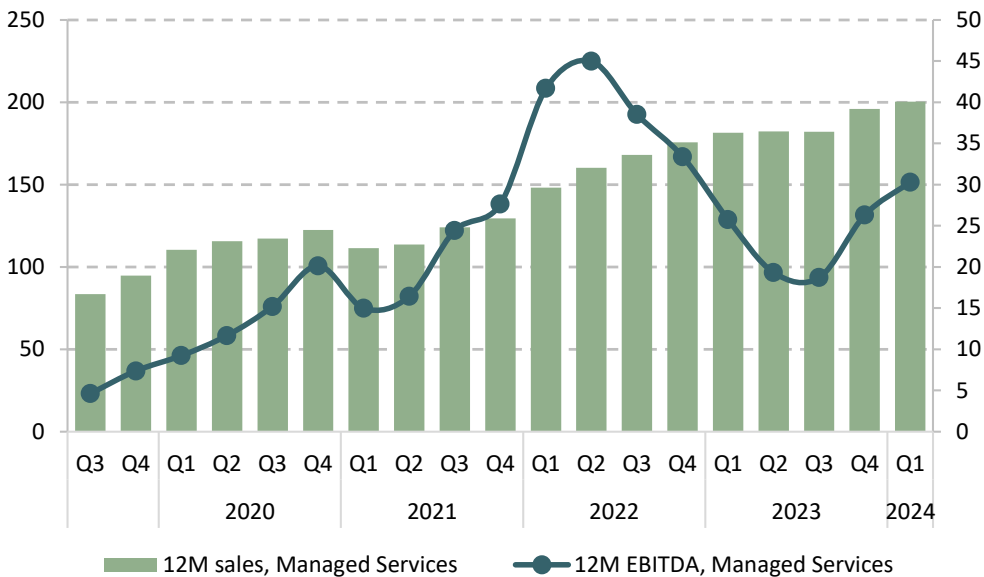


Source: SGG, Penser by Carnegie

The R12M trend was marginally positive for both sales and EBIT versus Q4(23).

Managed Services, which is a key value driver, has now seen an uptick two quarters in a row after a period of declining momentum in both sales and EBITDA. This is encouraging, as the solid order intake in this area suggests further positive results.

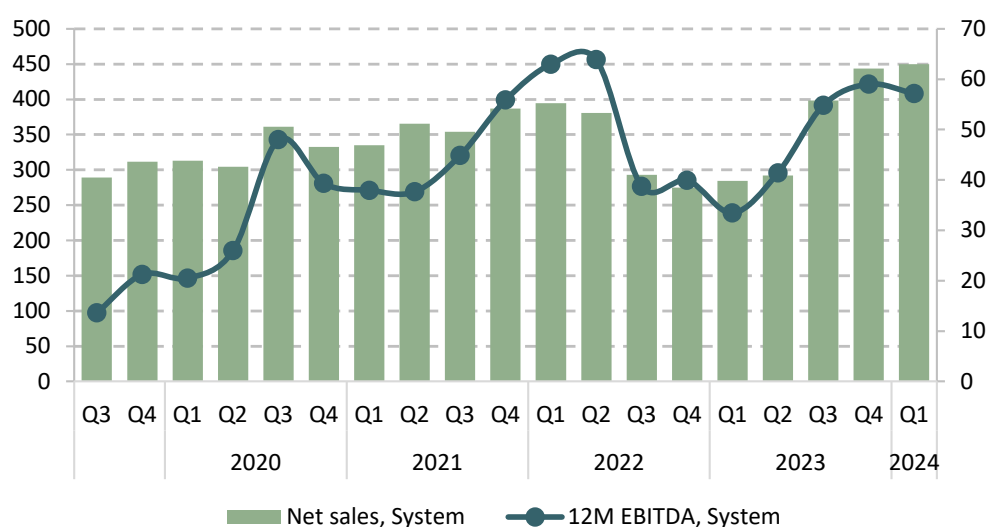
Managed Services, 12M sales and 12M EBITDA



Source: SGG, Penser by Carnegie

The R12M trend in Systems was relatively stable for sales but declined somewhat for EBITDA, as the company focuses on large deliveries to Sweden and the Netherlands.

Systems, 12M sales and 12M EBITDA



Source: SGG, Penser by Carnegie

Operating cash flows were robust at SEK55m (SEK-8m), mainly thanks to large customer payments that aided tied-up working capital.

Unchanged estimates and fair value

We leave our forecasts unchanged as the results for Q1(24) support our expectations for 2024e suggesting Y/Y improvements. The company reiterated its targets for 2025: sales of SEK1bn, an EBITDA margin of at least 15%, and TRaaS sales accounting for 60% of total sales. It is worth noting that a large share of the order book for equipment sales – primarily to Trafikverket (Swedish Transport Administration) – has not yet been invoiced, and that the order flow from the US still supports the growth the company has previously seen in Managed Services – a 2018–2023 CAGR of 27%.

We maintain our fair value of SEK80–100, based on a DCF valuation.

DCF – summary

Valuation output		WACC assumptions		Terminal value assumptions	
Sum of PV of FCF (explicit period)	578	Risk free nominal rate	2,5%	Long term growth rate	3,0%
PV of terminal value (perpetuity formula)	592	Risk premium	5,5%	Long term EBIT margin	13,0%
Enterprise value	1 170	Extra risk premium	4,0%	Depreciation (% of sales)	6,0%
Latest net debt	81	Beta	0,0	Capex (% of sales)	6,0%
Minority interests & other	0	WACC	12,0%	Working cap. (% of sales)	1,8%
Equity value	1 089			Tax rate	20%
No. of shares outstanding (millions)	12				
Equity value per share	94				

Source: SGG, Penser by Carnegie

DCF – sensitivity analysis

		Long-term growth rate					Long-term EBIT margin						
		1,0%	2,0%	3,0%	4,0%	5,0%			8,0%	10,5%	13,0%	15,5%	18,0%
WACC	11,0%	96	102	109	118	130	WACC	11,0%	61	85	109	133	157
	11,5%	90	95	101	109	119		11,5%	57	79	101	123	146
	12,0%	85	89	94	101	109		12,0%	53	74	94	115	136
	12,5%	80	84	89	94	101		12,5%	50	69	89	108	127
	13,0%	76	79	83	88	94		13,0%	47	65	83	101	120

Source: SGG, Penser by Carnegie

As the company nears its 2025 targets – which we consider likely as its solid order book should bolster growth in equipment sales substantially, while both historical performance and current order intake in the US indicate continued growth surpassing 20% Y/Y – we view the share as appealingly valued at an EV/EBIT multiple far below 10x for both 2025e and 2026e.

Income statement								
	2019	2020	2021	2022	2023	2024e	2025e	2026e
Net sales	406	455	507	495	624	718	1,074	1,173
Cost of goods sold	-208	-244	-274	-270	-371	-391	-580	-633
Gross profit	198	210	233	225	253	327	494	539
Other Operating Expenses	-169	-151	-150	-152	-167	-226	-327	-358
EBITDA	29	59	84	73	85	100	166	182
EBITDA, adjusted	29	59	84	73	85	100	166	182
Depreciation	-53	-49	-38	-43	-46	-44	-52	-52
EBITA, adjusted	-24	11	46	31	39	56	114	130
EBIT	-24	11	46	31	39	56	114	130
EBIT, adjusted	-24	11	46	31	39	56	114	130
Net Financial Items	-3	-8	1	2	-15	-5	-5	-5
Profit before tax	-28	2	47	33	25	51	109	125
Profit before tax, adjusted	-28	2	47	33	25	51	109	125
Taxes	12	1	-12	-13	-10	-13	-25	-29
Net income	-15	4	35	20	14	38	84	96
Net income, adjusted	-15	4	35	20	14	38	84	96
<i>Sales Growth</i>	<i>Neg.</i>	<i>12%</i>	<i>11%</i>	<i>-2%</i>	<i>26%</i>	<i>15%</i>	<i>50%</i>	<i>9%</i>
<i>Gross Margin</i>	<i>48.7%</i>	<i>46.3%</i>	<i>46.0%</i>	<i>45.5%</i>	<i>40.5%</i>	<i>45.5%</i>	<i>46.0%</i>	<i>46.0%</i>
<i>EBIT Margin, Adjusted</i>	<i>Neg.</i>	<i>2.4%</i>	<i>9.1%</i>	<i>6.2%</i>	<i>6.3%</i>	<i>7.9%</i>	<i>10.7%</i>	<i>11.1%</i>
<i>EPS, Adjusted</i>	<i>-1.41</i>	<i>0.36</i>	<i>3.04</i>	<i>1.74</i>	<i>1.26</i>	<i>3.32</i>	<i>7.31</i>	<i>8.34</i>
<i>EPS Growth, Adjusted</i>	<i>N.m.</i>	<i>N.m.</i>	<i>N.m.</i>	<i>-43%</i>	<i>-28%</i>	<i>165%</i>	<i>120%</i>	<i>14%</i>

Source: Sensys Gatso Group, Penser by Carnegie

Cash flow statement								
	2019	2020	2021	2022	2023	2024e	2025e	2026e
EBIT	-24	11	46	31	39	56	114	130
Other Cash flow Items	56	47	24	30	45	32	34	33
Changes in working capital	-36	-42	-61	64	-103	-35	-59	16
Cash flow from operating activities	-4	15	9	126	-18	54	90	179
Investments in Fixed Assets	-41	-19	-24	-19	-83	-25	-30	-35
Investments in intangible fixed assets	-4	-14	-18	-26	-20	-25	-25	-25
Cash flow from Investments	-45	-33	-42	-45	-103	-50	-55	-60
Free cash flow	-49	-18	-33	81	-121	4	35	119
New share issue / repurchase	0	71	0	0	0	0	0	0
Other items	24	2	-4	-55	71	0	0	0
Cash flow from financing	24	73	-4	-55	71	0	0	0
Cash flow	-25	55	-36	25	-50	4	35	119
Net debt	77	10	44	-24	109	105	70	-48

Source: Sensys Gatso Group, Penser by Carnegie

Balance sheet

	2019	2020	2021	2022	2023	2024e	2025e	2026e
ASSETS								
Goodwill	257	242	251	277	273	273	273	273
Other intangible assets	53	47	57	69	88	91	90	89
Tangible fixed assets	101	86	92	105	128	131	135	144
Financial assets	0	0	0	0	9	9	9	9
Other fixed assets	45	40	36	40	35	29	16	2
Total fixed assets	457	416	436	491	533	533	523	517
Inventories	87	127	97	85	100	115	161	176
Accounts receivable	75	68	141	67	182	208	215	235
Other current assets	35	47	51	85	99	115	172	188
Cash and cash equivalents	52	108	72	100	49	52	87	206
Total current assets	249	351	361	337	430	490	635	804
TOTAL ASSETS	706	767	797	828	964	1,023	1,158	1,321
EQUITY AND LIABILITIES								
Equity	450	517	561	626	636	674	758	854
Minority interest	-1	-2	0	0	0	0	0	0
Total equity	449	515	562	626	636	674	758	854
Long-term interest-bearing liabilities	39	37	44	44	71	71	71	71
Long-term lease liabilities	23	19	14	12	12	12	12	12
Other long-term liabilities	14	9	7	19	20	20	20	20
Total long-term liabilities	77	66	65	75	103	103	103	103
Short-term interest-bearing liabilities	57	53	50	9	64	64	64	64
Accounts payable	47	62	37	20	55	72	107	117
Short-term lease liabilities	10	9	9	10	10	10	10	10
Other current liabilities	66	63	75	87	96	100	115	172
Total current liabilities	180	187	170	127	225	246	296	363
TOTAL EQUITY AND LIABILITIES	706	767	797	828	964	1,023	1,158	1,321

Source: Sensys Gatso Group, Penser by Carnegie

Growth and margins

	2019	2020	2021	2022	2023	2024e	2025e	2026e
Revenue growth	Neg.	12%	11%	-2%	26%	15%	50%	9%
EBITDA growth, adjusted	Neg.	108%	40%	-12%	16%	18%	66%	9%
EBIT growth, adjusted	Neg.	Neg.	324%	-33%	27%	44%	103%	13%
EPS growth, adjusted	N.m.	N.m.	N.m.	-43%	-28%	165%	120%	14%
Gross margin	48.7%	46.3%	46.0%	45.5%	40.5%	45.5%	46.0%	46.0%
EBITDA margin	7.0%	13.1%	16.5%	14.8%	13.7%	14.0%	15.5%	15.5%
EBITDA margin, adjusted	7.0%	13.1%	16.5%	14.8%	13.7%	14.0%	15.5%	15.5%
EBIT margin	Neg.	2.4%	9.1%	6.2%	6.3%	7.9%	10.7%	11.1%
EBIT margin, adjusted	Neg.	2.4%	9.1%	6.2%	6.3%	7.9%	10.7%	11.1%
Profit margin, adjusted	Neg.	0.9%	6.9%	4.0%	2.3%	5.3%	7.8%	8.2%

Source: Sensys Gatso Group, Penser by Carnegie

Return

	2019	2020	2021	2022	2023	2024e	2025e	2026e
ROE, adjusted	Neg.	1%	7%	3%	2%	6%	12%	12%
ROCE, adjusted	Neg.	2%	7%	4%	5%	7%	13%	13%
ROIC, adjusted	Neg.	2%	8%	5%	6%	7%	14%	16%

Source: Sensys Gatso Group, Penser by Carnegie

Capital efficiency

	2019	2020	2021	2022	2023	2024e	2025e	2026e
Inventory / total revenue	21%	28%	19%	17%	16%	16%	15%	15%
Accounts receivable / total revenue	19%	15%	28%	14%	29%	29%	20%	20%
Accounts payable / COGS	23%	26%	14%	8%	15%	18%	19%	19%
Total short-term liabilities / total cost	48%	47%	40%	30%	42%	40%	33%	37%
Working capital / total revenue	21%	26%	35%	26%	37%	37%	30%	26%
Capital turnover rate	0.7x	0.7x	0.7x	0.7x	0.8x	0.9x	1.2x	1.2x

Source: Sensys Gatso Group, Penser by Carnegie

Financial position

	2019	2020	2021	2022	2023	2024e	2025e	2026e
Net debt	77	10	44	-24	109	105	70	-48
Equity ratio	64%	67%	70%	76%	66%	66%	65%	65%
Net debt / EBITDA	2.7x	0.2x	0.5x	-0.3x	1.3x	1.0x	0.4x	-0.3x

Source: Sensys Gatso Group, Penser by Carnegie

Per share data

	2019	2020	2021	2022	2023	2024e	2025e	2026e
EPS	-1.41	0.36	3.04	1.74	1.26	3.32	7.31	8.34
EPS, adjusted	-1.41	0.36	3.04	1.74	1.26	3.32	7.31	8.34
FCF per share	-4.53	-1.60	-2.85	6.99	-10.5	0.31	3.01	10.3
Book value per share	41.8	46.8	48.8	54.4	55.2	58.5	65.8	74.1
Number of shares, m	10.8	11.0	11.5	11.5	11.5	11.5	11.5	11.5
Number of shares after dilution, average	10.8	11.0	11.5	11.5	11.5	11.5	11.5	11.5

Source: Sensys Gatso Group, Penser by Carnegie

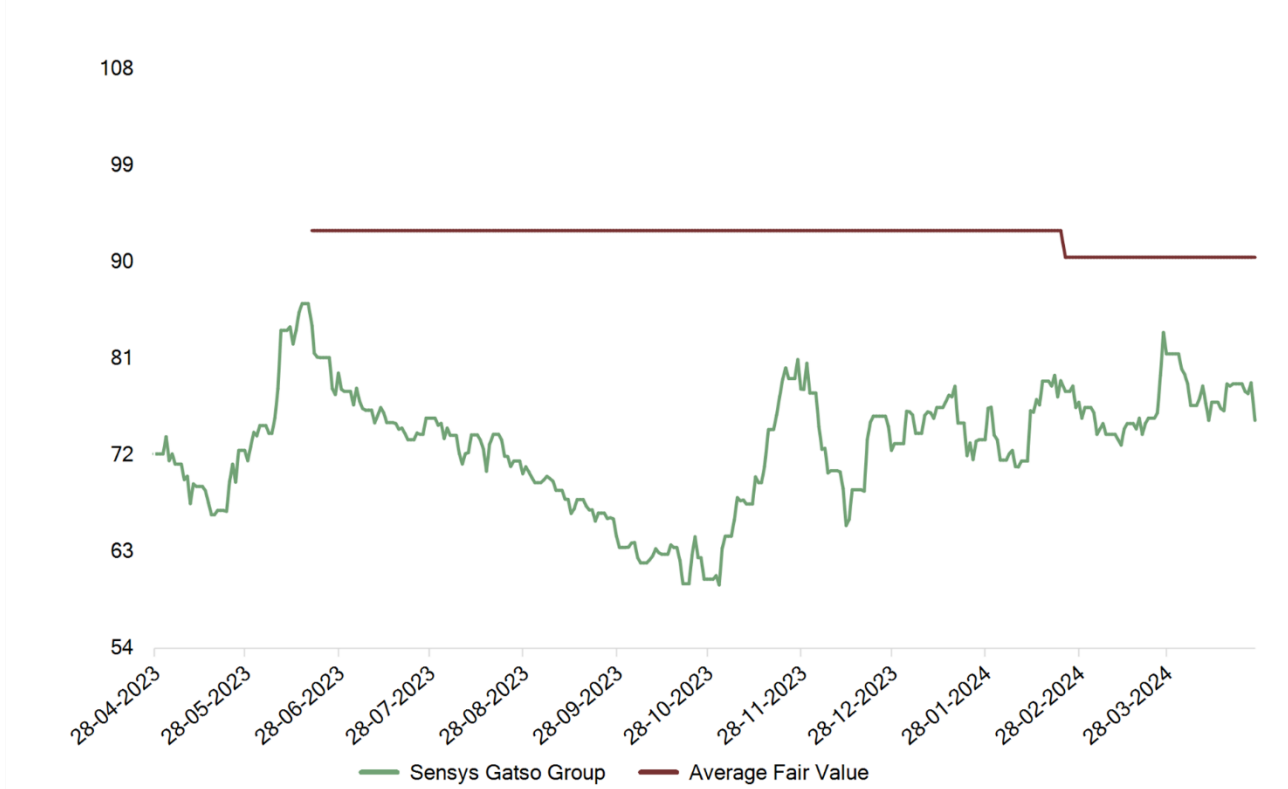
Valuation

	2019	2020	2021	2022	2023	2024e	2025e	2026e
P/E, adjusted	Neg.	100x	25.2x	45.9x	57.8x	22.5x	10.2x	9.0x
P/BV	2.6x	2.9x	1.6x	1.5x	1.3x	1.3x	1.1x	1.0x
P/FCF	Neg.	Neg.	Neg.	11.4x	Neg.	100x	24.8x	7.3x
FCF-yield	Neg.	Neg.	Neg.	9%	Neg.	0%	4%	14%
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Payout ratio, adjusted	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
EV/Sales	3.1x	3.3x	1.8x	1.8x	1.6x	1.3x	0.9x	0.8x
EV/EBITDA, adjusted	43.6x	24.9x	11.1x	12.2x	11.7x	9.4x	5.7x	5.2x
EV/EBIT, adjusted	Neg.	100x	20.2x	29.0x	25.3x	16.7x	8.2x	7.3x
EV	1,245	1,480	925	895	996	943	943	943
Share price, year end	109	134	76.5	79.8	72.6	74.8	74.8	74.8

Source: Sensys Gatso Group, Penser by Carnegie

Share Price and Average Fair Value Chart

Sensys Gatso Group (SENS SS EQUITY)



Source: Penser by Carnegie, IDC

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Penser Access by Carnegie

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